RATING REPORT

Best Fibres (Pvt.) Limited (BFPL)

REPORT DATE:
April 27, 2023

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Outlook	*Stable*		*Stable*	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*27th April'23*		*13th May'22*	

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 – 4.67% Ms. Mediha Asif – 94.77%	

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	RATING RATIONALE

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

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 Sheikhupura road, Khurrianwala, Tehsil Jaranwala, District Faisalabad in the province of Punjab. The ratings are constrained by vulnerability of the spinning sector to availability and prices of raw materials, foreign exchange risk as BFPL is heavily dependent on imported viscose, and any adverse changes in the regulatory duties structure.

Operations & Capacity Utilization

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.

BFPL produces a wide range of coarse and fine counts. Sales mix of the Company comprises 70% of viscose yarn and remaining (30%) of the mix consists of cotton yarn. Installed capacity after conversion into 20/s count remained the same at prior year level (Annualized HYFY23: 47.98m kgs; FY22: 47.98m kgs; FY21: 47.98m kgs). The company produced 13.16m kgs (FY22: 31.59m kgs; FY21: 30.53m kgs) of yarn by operating spinning unit in 3 shifts per day during all mentioned periods. During HYFY23, capacity utilization levels were reported lower at 55% owing to supply limitations given significant portion of raw material being imported. Installed capacity and production levels are tabulated below:

	FY21	FY22	HYFY23
Number of Spindles	108,816	108,816	108,816
Installed Capacity (mkg)	47.98	47.98	47.98
Actual Production (mkg)	30.53	31.59	13.16
Capacity Utilization (%)	64%	64%	55%

During FY22, the company incurred a capital expenditure of around Rs. 422m in order to purchase new machinery for capacity enhancement. This expenditure was financed through internal cash resources. The Company has also purchased new land adjacent to the existing spinning facility for future expansions. Other BMR activities during the outgoing year included purchase of factory equipment and vehicles to assist the operations of the Company. All BMR activities were financed through internal cash generation.

Sector Update

Table 2: Pakistan Export Statistics

	FY20	FY21	FY22	H1'FY22	H1'FY23
PAKISTAN EXPORTS (IN USD' MILLIONS)	22,536	25,639	32,450	15,122	14,267
TEXTILE (IN USD' MILLIONS)	12,851	14,492	18,525	9,381	8,717
PKR/USD RATE (AVERAGE)	158.0	160.0	177.5	169.4	223.2
SOURCE: SBP					

- Pakistan's export growth came in at 14% and 27% in FY21 and FY22 respectively. Pakistan's export proceeds had oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally grew to USD 32.5b.

- In FY22, textile exports were up 28%. Growth in textile exports played a significant role in the uptick in Pakistan's export base, contributing 59% of the overall growth in exports. Share of textile exports in total exports has oscillated in the range of 54-59%, during the past 3-years (FY20-22).
- As illustrated in the table below, the composition of textile exports has depicted improvement in the on a timeline, with contribution from higher value added segment increasing from 77.2% in FY20 to 80.8% in FY22 of aggregate textile exports.

Table 3: Segment-wise textile Exports (All Figures in USD' Millions, except for percentages)

	FY20	FY21	FY22	H1'FY22	H1'FY23	FY20	FY21	FY22	H1'FY22	H1'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**	**7,604**	**7,235**	**77.2%**	**80.7%**	**80.7%**	**81.1%**	**83.0%**
- Knitwear	2,794	3,815	5,121	2,500	2,467	22.3%	24.8%	26.5%	26.7%	28.3%
- Readymade Garments	2,552	3,033	3,905	1,832	1,833	20.4%	19.7%	20.2%	19.5%	21.0%
- Bed wear	2,151	2,772	3,293	1,660	1,428	17.2%	18.0%	17.0%	17.7%	16.4%
- Towels	711	938	1,111	524	492	5.7%	6.1%	5.8%	5.6%	5.6%
- Made-up Articles (Excl. towels & bed wear)	591	756	849	422	378	4.7%	4.9%	4.4%	4.5%	4.3%
- Art, Silk & Synthetic Textile	315	370	460	225	209	2.5%	2.4%	2.4%	2.4%	2.4%
- Others	555	743	866	441	429	4.4%	4.8%	4.5%	4.7%	4.9%
Low to Medium Value-added Segment	**2,858**	**2,972**	**3,717**	**1,777**	**1,483**	**22.8%**	**19.3%**	**19.2%**	**18.9%**	**17.0%**
- Cotton Cloth	1,830	1,921	2,438	1,135	1,066	14.6%	12.5%	12.6%	12.1%	12.2%
- Cotton Yarn	984	1,017	1,207	610	382	7.9%	6.6%	6.2%	6.5%	4.4%
- Others	43	34	72	32	34	0.3%	0.2%	0.4%	0.3%	0.4%
Total	**12,527**	**15,399**	**19,332**	**9,381**	**8,717**					
Source: PBS										

- Cotton production in Pakistan, was at its lowest level in decades for FY21, albeit the same posted 18% uptick in FY22. Actual production at 8.33m bales still missed the targeted production of 10.5m bales. Cotton prices rose to a new 12-year high of ~Rs. 21,600/maund as of March'22, as a result of the shortage and higher input costs of fertilizer and energy. Cotton imports were also up 19.8%, in USD terms, for FY22 vis-à-vis preceding year.
- According to United States Department of Agriculture (USDA), the 2022/23 harvested area has declined notably following devastation caused by recent flood in Sindh and Southern Punjab. Hence, the projected production has been brought down to 5m bales. To counter the shortage, import of 5.8m bales is expected during FY23, which is 29% higher than preceding year.

Table 4: Cotton Prices

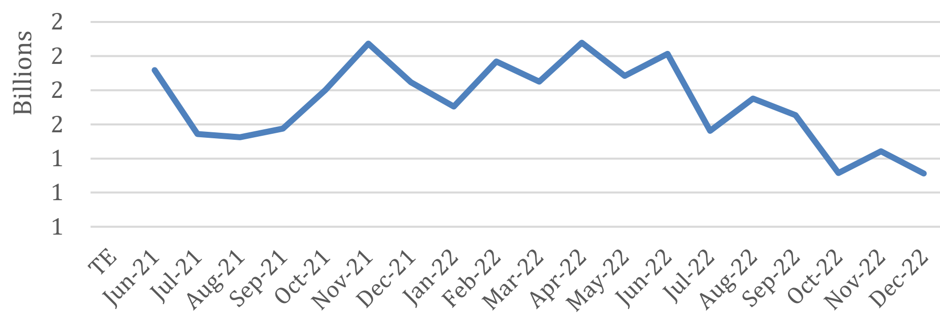
	FY19	*FY20*	*FY21*	*FY22*
Per Maund (Rs.)	8,770	8,860	13,000	17,380
% Change	*26%*	*1%*	*32%*	*34%*

Future Outlook – Textile Industry

- After posting windfall margins in FY21 and H1'FY22, margins of textile operators, particularly spinners, weavers and dying units, have come under pressure during the period Jan-Sep'2022, mainly on account of higher input costs and recessionary trend in export markets.

- The recessionary trend in Pakistan's major export textile markets, mainly North America and EU, has started to materialize, with receipts for Q2'FY23 being 17% lower vis-à-vis corresponding period last year. The MoM decline in exports is illustrated in the graph below.

Figure 1: MoM Textile Exports (TE) (In USD' Billions)



- Given industrial gas load shedding during the period Dec-Feb'23, and prevailing recession in major export markets and peak inventory levels, export proceeds are expected to fall by 5-10% in FY23. Furthermore, profitability margins of textile operators, particularly spinners, weavers and dying companies, are expected to remain under pressure given higher input and financial costs.

Key Rating Drivers:

Topline of the company grew by 37% during FY22 largely driven by higher average selling prices

- Net sales of the Company witnessed a sizeable jump of 37% and were reported at Rs.9.7b (FY21: Rs. 7.3b; FY20: Rs. 4.3b) in FY22 driven by 26% increase in prices.
- Sales mix predominantly comprised yarn which accounted for 93% (FY21: 90%) of net sales during FY22. Product mix also consists a small proportion (7%) of waste and raw material sold. Yarn sales increased to Rs. 9.02b (FY21: Rs. 6.62b) on account of higher average selling prices during the year. Going forward, the management expects revenue base to increase with addition of new towel manufactures in the clientele and enhancement in production capacity in FY24. Meeting projected revenue growth targets will be important.
- Net sales of ZAC comprises of local sales only. Customer concentration has inclined sharply over the year and is fairly on the higher side with top 10 customers accounting for 55% of total sales during 1HFY23 (FY22: 44%; FY21: 11%). However, as per management, client concentration risk is partially eliminated with availability of alternate customers at all times.
- The company's clientele remains saturated in Punjab, major geographical market is Faisalabad which constitutes around three fourth of the total yarn sold to customers, remaining is segregated among Karachi, Jhang, Gujranwala, Multan and Lahore. In HYFY23, Sahiwal was also added to the list of region-wise sales of the Company.

- During 1HFY23, revenue of the Company was recorded at Rs.4.7b and management expects gradual increase in the top line with ease in LC constraints over the remaining part of the ongoing fiscal year.

Margins under pressure due to currency devaluation and higher input costs

- Gross profit of the Company decreased to Rs.761.4m (FY21: 891.4m; FY20: Rs. 420.6m) in FY22. Subsequently, gross margins also reduced to 7.8% (FY21: 12.3%; FY20: 9.7%) in the same period on account of increase in prices of imported raw material led by currency devaluation, higher local cotton prices and elevated fuel expense.
- Administrative expenses increased primarily due to higher remuneration & benefits expensed and donations granted during the year. Finance charges were reported higher at Rs. 110.5m (FY21: Rs. 56.4m; FY20: Rs. 150.9m) mainly due to higher benchmark rates and elevated short-term borrowing levels in FY22.
- Net margin of the Company depict notable decline on account of higher financial charges and elevated tax expense. Consequently, net margins dipped to 2.9% (FY21: 7.1%; FY20: 3.5%) in FY22 which have further reduced to 1.5% in 1HFY23 as financial costs continue to drag down profitability.
- Given uncertain macroeconomic environment, improving margins will be important from a ratings perspective.

Liquidity profile of the Company depicts room for improvement.

- Funds from Operation (FFO) of the Company decreased to Rs. 528.6m (FY21: Rs.762.0m; FY20: Rs. 249.3m) in FY22 being a function of decrease in quantum of profits in absolute terms. In line with the low profitability profile and elevated quantum of debt, cash flow coverages against outstanding obligations have witnessed weakening in the review period.
- FFO to Total Debt and FFO to Long-Term Debt declined to 36% (FY21: 64%; FY20: 28%) and 252% (FY21: 318%; FY20: 79%) respectively during FY22. The same furthered deteriorated significantly to 7% and 71% respectively during 1HFY23.
- Similarly, Debt Servicing ratio (DSCR) also declined sharply to 1.59x (FY22: 5.40x; FY21: 4.28x) during 1HFY23. In FY22, incline in DSCR was entirely due to higher non-cash adjustments during the period.
- Ratings remain dependent on improvement of the liquidity indicators as per the benchmarks for the assigned ratings.
- Current ratio as of 1HFY23 end stood at 1.01x, which is around the minimum threshold level. Short-term borrowing coverage is deemed adequate at 132% at end-Dec'22.
- Aging profile of trade debts is considered sound with 100% of outstanding trade receivables due within three months.

Increase in Short-term borrowings resulted in elevated capitalisation indicators on a timeline basis

- Equity base of the company accumulated to Rs. 2.2b (FY22: 2.1b; FY21: Rs. 1.8b) by end-Dec'22 through profit retention.

- The debt profile comprises a mix of long-term (10%) and short-term borrowings (90%). The outstanding balance of long-term borrowings, inclusive of current maturity, reduced to Rs. 210.0m (FY21: Rs. 240.0m) on account of repayment of debt employed. Whereby, short-term borrowings increased to Rs. 1.3b (FY21: Rs. 0.9b) at end-FY22 to meet higher working capital requirements in lieu of rising raw materials costs.
- With growth in quantum of debt (HFY23: Rs. 1.8b; FY22: Rs. 1.5; FY21: Rs. 1.2b) being greater than profit retention in the review period due to increased cash conversion cycle, gearing and debt leverage ratios have depicted an uptick on a timeline basis. The same were reported at 0.82x (FY22: 0.70x; FY21: 0.65x) and 1.38x (FY22: 1.33x; FY21: 0.97x) respectively, at end-HY23.
- Given no expansion plans in FY23, debt levels are expected to remain at similar levels.
- However, given the challenging market dynamics and pressure on margins, maintaining financial risk profile over the rating horizon will remain critical for ratings.

Best Fibres (Pvt.) Limited **Annexure I**

Financial Summary

BALANCE SHEET	FY19	FY20	FY21	FY22	HYFY23
Fixed Assets	1,481.7	1,772.1	2,315.7	2,569.3	2,481.4
Stock-in-Trade	901.6	720.9	1,074.5	1,797.3	2,083.1
Trade Debts	1.6	1.6	19.4	55.8	35.4
Cash & Bank Balances	42.6	25.9	8.4	69.0	49.8
Total Assets	2,643.3	2,705.0	3,571.4	4,913.3	5,179.8
Trade and Other Payables	208.5	284.2	285.6	878.5	905.2
Long Term Debt	336.2	316.7	240.0	210.0	180.0
Short Term Debt	792.1	581.4	943.6	1,272.2	1,599.2
Total Debt	1,128.3	898.1	1,183.6	1,482.2	1,779.2
Total Liabilities	1,715.1	1,512.3	1,758.0	2,808.4	3,003.5
Paid Up Capital	326.5	326.5	535.5	535.5	535.5
Total Equity	928.2	1,192.7	1,813.3	2,104.9	2,176.3
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**	**HYFY23**
Net Sales	8,193	4,346	7,248	9,730	4,650
Gross Profit	739	421	891	761	240
Profit Before Tax	526	200	719	527	130
Profit After Tax	376	152	511	285	71
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**	**HYFY23**
Gross Margin (%)	9.0%	9.7%	12.3%	7.8%	5.2%
Net Margin (%)	4.6%	3.5%	7.1%	2.9%	1.5%
Net Working Capital	(320)	(348)	(174)	(111)	29
Trade debts/Sales	0.0%	0.0%	0.3%	0.6%	0.4%
FFO	502.4	249.3	762.0	528.6	64.0
FFO to Total Debt (%)	44.5%	27.8%	64.4%	35.7%	7%
FFO to Long Term Debt (%)	149.5%	78.7%	317.5%	251.7%	71%
Current Ratio (x)	0.78	0.72	0.88	0.95	1.01
Debt Servicing Coverage Ratio (x)	NA	1.47	4.28	5.40	1.59
Gearing (x)	1.22	0.75	0.65	0.70	0.82
Leverage (x)	1.85	1.27	0.97	1.33	1.38
Long Term Debt to TD (%)	30%	35%	20%	14%	10%
Short Term Debt to TD (%)	70%	65%	80%	86%	90%
(Stock+Trade Debts)/STD	114%	124%	116%	146%	132%
ROAA (%)	14%	6%	16%	7%	3%
ROAE (%)	40%	14%	34%	15%	7%

**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	see table below
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
27-04-2023	A-	A-2	Stable	Reaffirmed
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

Due Diligence Meeting

Name	Designation	Date
Mr. Mansoor Zafar	CFO	February 27, 2023